



Ernie Fletcher
Governor

LaJuana S. Wilcher, Secretary
Environmental and Public
Protection Cabinet

Christopher L. Lilly
Commissioner
Department of Public Protection

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

Mark David Goss
Chairman

Teresa J. Hill
Vice Chairman

Gregory Coker
Commissioner

July 12, 2006

Mr. Millard Rose
Lancaster Water Works
101 Standford Street
Lancaster, Kentucky 40444

Mr. Harold C. Ward
Garrard County Water Association, Inc.
P. O. Box 670
Lancaster, Kentucky 40444

Re: Case No. 2006-00182
City of Lancaster, Kentucky

Gentlemen:

The Public Service Commission initiated an investigation into the reasonableness of the city of Lancaster's proposed wholesale water service rate because of a discrepancy between the terms of Lancaster's water service contract with Garrard County Water Association and the proposed wholesale rate.

In the Order in which it initiated its investigation, the Commission noted:

Lancaster's proposed rate schedule provides for a wholesale rate of \$1.82 per 1,000 gallons of purchased water. The "Water Rate Agreement" provides for a wholesale rate of \$1.78 per 1,000 gallons of purchased water. Lancaster subsequently advised the Commission that the discrepancy in rates reflects the pass through of water withdrawal fees that the Kentucky River Authority assesses. Neither the "Water Rate Agreement" nor the proposed rate schedule make any provision for the assessment of such fees to Garrard County.

During our telephone conference call of May 23, 2006 with Lancaster and Garrard County Water Association, both parties agreed in principle that Lancaster should be permitted to recover from Garrard County Water Association any Kentucky

Mr. Millard Rose
Mr. Harold C. Ward
July 12, 2006
Page 2

River Authority (KRA) withdrawal fees associated with its sales to Garrard County Water Association. To achieve this objective, Commission Staff proposes that the following provision be added to Lancaster's proposed wholesale rate schedule:

Lancaster may assess, as a separate line item, a monthly fee to recover all fees paid to the Kentucky River Authority that are assessed pursuant to 420 KAR 1:040 and 1:050 for water withdrawn from the Kentucky River, treated, and sold to GCWA. This fee shall be calculated as follows:

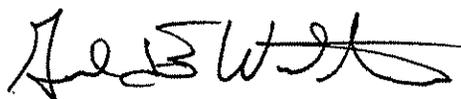
$(\text{Tier 1 Fee} + \text{Tier 2 Fee})^* \times \text{Total Number of gallons sold to GCWA during the billing period}.$

*Rounded to the nearest cent.

Based upon KRA's current withdrawal fees, the total fee would be \$0.038 per 1,000 gallons, or \$0.04 per 1,000 gallons when rounded to the nearest cent.

Please advise as to your entity's position on this proposal. If you have any questions, please contact me at (502) 564-3940, Extension 259.

Sincerely,



Gerald E. Wuetcher
Deputy General Counsel